

Highland

HIGHLAND QUEEN SPORTSWEAR LIMITED

100% PURE VIRGIN WOOL
Highland Queen[®]
SPORTSWEAR
MADE IN CANADA

Annual Meeting of Shareholders

June 4, 1981

HIGHLAND QUEEN SPORTSWEAR LIMITED

PRESIDENT'S REPORT

Through the efforts of an imaginative, dedicated group of people, I am pleased to report that Highland Queen, for the year ending October 31, 1980, has again increased its sales, its royalty income earned on reversible skirts and, most importantly, its earnings per share. The latter rose from \$1.95 to \$2.62 per share before dilution or \$2.49 per share after fully diluted earnings. To continually maintain our leadership in women's sportswear, it is essential that we interpret and anticipate fashion trends and changes in both fabrication and design. Because of our style sources in the fashion centres of the world, and our own creativity, we expect that sales and profits for the Highland Queen, Sportrite and Jones of New York lines will again increase in 1981.

In order to enhance the market penetration of the Highland Queen line, the company has embarked upon a challenging and exciting program. Through a wholly-owned subsidiary formed in December, 1980, Highland Queen Ltd. of New York City, office, showroom, semi-manufacturing and distribution facilities have been opened on 7th Avenue in the heart of the New York Fashion industry for the purpose of building and expanding upon the American business already on the books of the Canadian company. We feel that the product line is strong enough to warrant the investment of personnel, time and money so that the American retail market can be more readily served.

As well, the American company has established a Bill Atkinson Division to enable it to participate in the exclusive designer market which is presently flourishing in the United States. We are happy to have obtained the services of Mr. Bill Atkinson who is considered one of the foremost designers in America today. His function is to create, design and market the line bearing his name. Although we expect that losses will be incurred in the beginning, we feel that the American market will eventually contribute to the profits of the company.

The attempt to reverse the normal trend of the American fashion industry moving into Canada to one whereby the Canadian manufacturer can penetrate the American market gives us an additional incentive to put forth every effort to make the operation in the United States as successful as possible.

On behalf of the Board

DAVID WEISER

May 12, 1981

HIGHLAND QUEEN SPORTSWEAR LIMITED

INFORMATION CIRCULAR

as at May 8, 1981

MANAGEMENT SOLICITATION

This Information Circular is furnished in connection with the solicitation by the Management of HIGHLAND QUEEN SPORTSWEAR LIMITED of proxies to be voted at the Annual Meeting of Shareholders of the Corporation, to be held at the time and place and for the purposes set forth in the Notice of Meeting. The solicitation will be by mail and the cost will be borne by the Corporation.

APPOINTMENT AND REVOCATION OF PROXIES

The persons named in the enclosed Form of Proxy are Directors of the Corporation. A Shareholder desiring to appoint some other person to represent him at the Meeting may do so by inserting in the blank space provided in the said form the name of the person whom he wishes to appoint as his proxy and delivering or mailing the completed proxy to Guaranty Trust Company of Canada at 88 University Avenue, Toronto M5J 1T8.

A Shareholder executing the enclosed proxy has the power to revoke it at any time prior to its use by instrument in writing, executed by the Shareholder or his attorney duly authorized in writing, or, if the Shareholder is a Corporation, under its corporate seal or by an officer or attorney thereof, duly authorized and deposited either at the head office of the Corporation at any time up to and including the last business day preceding the day of the Meeting or any adjournment thereof at which the proxy is to be used, or with the Chairman of such meeting on the day of the Meeting or adjournment thereof.

EXERCISE OF DISCRETION BY PROXIES

It is intended that the accompanying Instrument of Proxy, if signed, dated and returned to the Corporation prior to the Meeting, will be voted for the election of Directors and the appointment of Auditors in accordance with the instructions contained in the enclosed Instrument of Proxy, and will be voted with respect to amendments or variations identified in the Notice of Meeting or other matters that may properly come before the Meeting according to the best judgment of the person voting the proxy at the Meeting.

The Management knows of no matters to come before the Annual Meeting of Shareholders other than the matters referred to in the Notice of Meeting. If any matters which are not known should properly come before the Meeting, the accompanying Proxy Instrument will be voted in such matters, in accordance with the best judgment of the person voting it.

VOTING SHARES AND PRINCIPAL HOLDERS THEREOF

The Corporation has an authorized capital consisting of 100 common shares without par value, 500,000 Class "A" shares without par value and 500,000 Class "B" shares without par value, of which 321,970 Class "A" shares and 8,030 Class "B" shares are issued and outstanding as fully paid and non-assessable. Each share carries the right to one vote. Each registered shareholder of record at the time of the taking of the vote at the Annual Meeting will be entitled to vote at the meeting. To the knowledge of the Management, the only person or corporation beneficially owning more than 10 per cent of the issued and outstanding shares of the Corporation, are the following:

David Weiser	101,250	30.681 % of the issued and outstanding shares
Dune Investments Limited	86,250	26.136 % of the issued and outstanding shares

The shareholders of Dune Investments Limited are the wife and four children of David Weiser.

ELECTION OF DIRECTORS

The Board of Directors consists of five directors to be elected annually. The persons named in the enclosed Instrument of Proxy intend to vote, subject to any restrictions that may be imposed by the Instrument of Proxy, for the election of the nominees whose names are set forth below. It is not contemplated that any of the nominees will be unable to serve as a Director, but if that should occur for any reason prior to the Meeting, the persons named in the enclosed Form of Proxy reserve the right to vote for another nominee in their discretion. Each Director will hold office until the next Annual Meeting or until his successor is duly elected or appointed, if his office is earlier vacated in accordance with the By-laws of the Corporation.

The following table states the names of all persons proposed to be nominated for election as Directors, their position with the Corporation, their principal occupation or employment during the past five years, the date on which they became Directors of the Corporation, and the approximate number of shares of the Corporation beneficially owned, directly or indirectly, by each of them as of May 8, 1981.

<u>Name of Proposed Nominee</u>	<u>Offices presently held in Corporation</u>	<u>Director since</u>	<u>No. of Shares beneficially owned</u>	<u>Principal occupation</u>
David Weiser	President and Director	February 28, 1957	101,250*	President of the Corporation
Howard Weiser	Vice-President and Director	April 27, 1970	5,620	Vice-President and Executive in charge of Styling and Production of Highland Queen Sportswear Limited, Toronto, Ontario
Joseph Weiser	Secretary-Treasurer and Director	February 17, 1969	5,370	Secretary-Treasurer of the Corporation
Paul Henry, Q.C.	Director	February 1, 1968	Nil	Partner, Henry & Brown, Barristers and Solicitors, Toronto, Ontario
Ralph Brown, Q.C.	—	—	Nil	Partner, Henry & Brown, Barristers and Solicitors, Toronto, Ontario

*See heading "Voting Shares and Principal Holders Thereof".

Mr. Joseph Weiser is the nominee of Dune Investments Limited to the Board of Directors.

REMUNERATION OF DIRECTORS AND OFFICERS

Nature of Remuneration

(I) DIRECTORS (Total number: 5)

(A) From issuer and wholly-owned subsidiaries:

(B) From partially owned subsidiaries: (4).

TOTAL

(II) FIVE SENIOR OFFICERS

(A) From issuer and wholly-owned subsidiaries:

(B) From partially owned subsidiaries: (4).

TOTAL

<u>From Office, Employment and Employer Contribution (Aggregate)</u>	<u>Cost of Pension Benefits (Aggregate)(1)</u>	<u>Other (Aggregate)</u>
Nil	Nil	Nil
Nil	Nil	Nil
Nil	Nil	Nil
\$1,010,000.00(3)	Nil	Nil
Nil	Nil	Nil
\$1,010,000.00	Nil	Nil

NOTE 1: The Corporation funds no pension or retirement plan which pays a benefit to the directors or senior officers of the Corporation.

NOTE 2: The Corporation pays no remuneration other than remuneration from "office, employment and employer contributions" to the senior officers of the Corporation.

NOTE 3: Aggregate remuneration from office, employment and employer contribution includes payments of \$21,000.00 by the Corporation to senior officers under a deferred profit sharing plan.

NOTE 4: There are no partially-owned subsidiaries.

Options to purchase securities of the Corporation were granted to senior officers of the Corporation on June 8, 1979. Particulars of the said options are as follows:

- (1) Each of David Weiser, Howard Weiser, Joseph Weiser, Joseph DelMastro (General Manager) and Robert Kutner (Sales Manager) were granted an option to purchase up to 3,000 of the Class "A" or Class "B" authorized and unissued shares of the Corporation.
- (2) The options are exercisable by the said senior officers, or their heirs, executors, or administrators (but not their assigns) in respect of all or any part of the optioned shares at any time or from time to time after June 3, 1979, until the expiration of the option, at a price of \$2.25 per share. The options expire upon the earliest of the following events:
 - (a) at 12:00 p.m. on June 7, 1982,
 - (b) at 12:00 p.m. on a date prior to the first anniversary following the death of the senior officer to whom the option was granted, or
 - (c) at 12:00 p.m. on the sixtieth day following the senior officer to whom the option was granted voluntarily leaving his employment with the Corporation or such employment being terminated by the Corporation.

In the event these options are exercised by any of the said senior officers, or their heirs, executors, or administrators, the share certificates will be endorsed by the person(s) exercising the option and deposited with David Weiser as "Voting Trustee" who shall hold, possess and be entitled in his discretion to exercise all rights and powers of absolute owners of the shares subject to the terms and conditions of the voting trust agreement entered into by the said officers and David Weiser.

- (3) The consideration received by the Corporation for the granting of each of the said options was the sum of \$1.00 and other good and valuable consideration.
- (4) A summary of the price range of the Class "A" shares of the Corporation in the 30 day period preceding the date of the said grant is as follows:

<u>Week Ending</u>	<u>Volume of Shares Traded</u>	<u>Low</u>	<u>High</u>
Thursday, May 10, 1979.....	No trading		
Thursday, May 17, 1979.....	No trading		
Thursday, May 24, 1979.....	100	\$1.00	\$1.00
Thursday, May 31, 1979.....	2,400	\$2.00	\$2.75
Thursday, June 7, 1979.....	4,300	\$2.00	\$2.75

There was no trading in Class "B" shares of the Corporation in the 30 day period preceding the date of the said grant.

- (5) No option to purchase securities of the Corporation has been exercised by any of the said senior officers or his heirs, executors, or administrators since June 8, 1979.

INDEBTEDNESS OF DIRECTORS AND SENIOR OFFICERS

During the last completed financial year David Weiser was indebted to the Corporation in respect of an advance to him, without interest, against an anticipated bonus. The largest aggregate amount of the indebtedness was \$5,145.00, which amount has been repaid in full.

During the last completed financial year Joseph Weiser was indebted to the Corporation in respect of an advance to him, without interest, against an anticipated bonus. The largest aggregate amount of the indebtedness was \$18,643.00, which amount has been repaid in full.

During the last completed financial year Howard Weiser was indebted to the Corporation in respect of an advance to him, without interest, against an anticipated bonus. The largest aggregate amount of the indebtedness was \$517.00, which amount has been repaid in full.

During the last completed financial year Joseph DelMastro was indebted to the Corporation in respect of an advance to him, without interest, against an anticipated bonus. The largest aggregate amount of the indebtedness was \$578.00, which amount has been repaid in full.

During the last completed financial year Robert Kutner was indebted to the Corporation in respect of an advance to him, without interest, against an anticipated bonus. The largest aggregate amount of the indebtedness was \$517.00, which amount has been repaid in full.

APPOINTMENT OF AUDITORS

The persons named in the enclosed Form of Proxy intend to vote for the reappointment of Wm. Eisenberg & Co., Toronto, the present Auditors, as Auditors of the Corporation to hold office until the next Annual Meeting of the Shareholders. The said Auditors were first appointed in 1957.

HIGHLAND QUEEN SPORTSWEAR LIMITED

(Incorporated under the Laws of Ontario)

and subsidiary companies

Consolidated Balance Sheet

October 31, 1980

ASSETS

	1980	1979
CURRENT		
Cash.....	\$ 45,677	\$ 18,019
Accounts receivable.....	3,503,834	2,888,931
Inventories (note 2).....	2,353,961	2,048,210
Prepaid expenses and sundry assets.....	41,597	31,392
	<u>5,945,069</u>	<u>4,986,552</u>
FIXED (note 3).....	<u>199,763</u>	<u>170,658</u>
OTHER		
Goodwill.....	91,220	101,356
Other investments, at cost.....	8,971	8,971
	<u>100,191</u>	<u>110,327</u>
	<u>\$6,245,023</u>	<u>\$5,267,537</u>

LIABILITIES

CURRENT		
Bank indebtedness (note 4).....	\$1,615,571	\$1,697,965
Accounts payable and accrued liabilities.....	1,957,047	1,584,267
Income taxes payable.....	195,464	257,591
	<u>3,768,082</u>	<u>3,539,823</u>
DEFERRED INCOME TAXES.....	<u>27,636</u>	<u>23,136</u>

SHAREHOLDERS' EQUITY

CAPITAL STOCK (note 5).....	100	100
RETAINED EARNINGS.....	2,449,205	1,704,478
	<u>2,449,305</u>	<u>1,704,578</u>
	<u>\$6,245,023</u>	<u>\$5,267,537</u>

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board

"DAVID WEISER", Director

"J. WEISER", Director

HIGHLAND QUEEN SPORTSWEAR LIMITED

(Incorporated under the Laws of Ontario)

and subsidiary companies

Consolidated Statement of Retained Earnings for the year ended October 31, 1980

	1980	1979
BALANCE, BEGINNING OF YEAR.....	\$ 1,704,478	\$ 1,260,824
Net earnings.....	863,230	643,231
	<u>2,567,708</u>	<u>1,904,055</u>
Dividends		
Class "A" shares (40¢ per share; 1979 – 48.875¢).....	128,748	154,724
Class "B" shares (40¢ per share; 1979 – 57.5¢).....	3,252	7,722
Refundable dividend tax (recovered).....	(13,497)	9,827
Tax of 15% paid under paragraph 196(1)(a) of the Income Tax Act.....	—	27,304
	<u>118,503</u>	<u>199,577</u>
BALANCE, END OF YEAR.....	<u>\$ 2,449,205</u>	<u>\$ 1,704,478</u>

See accompanying notes to consolidated financial statements.

Consolidated Statement of Earnings for the year ended October 31, 1980

	1980	1979
REVENUE		
Sales.....	\$15,538,245	\$12,328,979
Royalties.....	110,970	70,545
	<u>15,649,215</u>	<u>12,399,524</u>
COST OF SALES AND EXPENSES		
Cost of sales, selling and administrative expenses before the following items	13,761,431	11,023,335
Interest.....	317,609	209,402
Depreciation.....	47,309	38,348
Amortization of goodwill.....	10,136	—
Amortization of relocation costs.....	—	11,093
	<u>14,136,485</u>	<u>11,282,178</u>
EARNINGS BEFORE INCOME TAXES.....	1,512,730	1,117,346
INCOME TAXES.....	649,500	474,115
NET EARNINGS.....	<u>\$ 863,230</u>	<u>\$ 643,231</u>
NET EARNINGS PER SHARE (note 7).....	<u>\$ 2.62</u>	<u>\$ 1.95</u>
NUMBER OF SHARES OUTSTANDING.....	<u>330,000</u>	<u>330,000</u>

See accompanying notes to consolidated financial statements.

HIGHLAND QUEEN SPORTSWEAR LIMITED

(Incorporated under the Laws of Ontario)

and subsidiary companies

Consolidated Statement of Changes in Financial Position for the year ended October 31, 1980

	1980	1979
SOURCE OF WORKING CAPITAL		
Operations		
Net earnings.....	\$ 863,230	\$ 643,231
Items not affecting working capital:		
Depreciation.....	47,309	38,348
Amortization of goodwill.....	10,136	—
Deferred income taxes.....	4,500	(1,526)
Amortization of relocation costs.....	—	11,093
	925,175	691,146
Refundable dividend tax recovered.....	13,497	—
	938,672	691,146
USE OF WORKING CAPITAL		
Additions to fixed assets.....	76,414	83,170
Dividends.....	132,000	162,446
Tax of 15% paid under paragraph 196(1)(a) of the Income Tax Act.....	—	27,304
Refundable dividend tax.....	—	9,827
Other.....	—	2,911
	208,414	285,658
INCREASE IN WORKING CAPITAL.....	730,258	405,488
WORKING CAPITAL, BEGINNING OF YEAR.....	1,446,729	1,041,241
WORKING CAPITAL, END OF YEAR.....	\$2,176,987	\$1,446,729

See accompanying notes to consolidated financial statements.

AUDITORS' REPORT

To the Shareholders of
HIGHLAND QUEEN SPORTSWEAR LIMITED.

We have examined the consolidated balance sheet of Highland Queen Sportswear Limited as at October 31, 1980, and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at October 31, 1980, and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada
February 6, 1981

WM. EISENBERG & CO.
Chartered Accountants

HIGHLAND QUEEN SPORTSWEAR LIMITED

(Incorporated under the laws of Ontario)

and subsidiary companies

Notes to Consolidated Financial Statements

October 31, 1980

1. Significant accounting policies

These financial statements were prepared in accordance with accounting principles generally accepted in Canada. The significant policies are summarized below:

Basis of consolidation

The consolidated financial statements include the accounts of the following wholly-owned subsidiaries:

Rotex Limited

Sportrite Limited

All inter-company balances and transactions have been eliminated on consolidation.

Inventories

Inventories are valued at the lower of cost (determined on a first-in, first-out basis) and net realizable value.

Fixed assets

Fixed assets are recorded at cost. Depreciation of machinery and equipment is provided using the diminishing-balance method at an annual rate of 20% which will substantially amortize the cost of these assets over their estimated useful lives. Leasehold improvements are amortized on a straight-line basis over the terms of the leases plus first renewal options.

Goodwill

Goodwill represents the excess of the cost of investment in a subsidiary over the book value of its net assets at the date of acquisition in 1965. During the year the Company commenced amortizing goodwill on a straight-line basis over ten years. This change in accounting policy has no material effect on the financial statements.

Foreign currency translation

Foreign currency balances and transactions have been translated into Canadian funds as follows:

Current assets (excluding inventories) and current liabilities – at rates of exchange in effect at October 31, 1980.

Inventories, revenues and expenses – at rates of exchange in effect on dates of transactions.

Foreign currency gains and losses are included in the statement of earnings.

2. Inventories

	1980	1979
Raw materials.....	\$1,330,013	\$ 813,043
Work-in-process.....	414,342	376,623
Finished goods.....	609,606	858,544
	<u>\$2,353,961</u>	<u>\$2,048,210</u>

3. Fixed assets

	1980		1979
	Cost	Accumulated Depreciation	Net Book Value
Machinery and equipment.....	\$318,065	\$203,252	\$114,813
Leasehold improvements.....	128,500	43,550	84,950
	<u>\$446,565</u>	<u>\$246,802</u>	<u>\$199,763</u>
			<u>\$170,658</u>

4. Bank indebtedness

Book debts and inventories of the Company and its subsidiaries have been pledged as security for demand loans. A general security agreement has been registered under the Personal Properties Security Act giving the bank a security interest in all the Company's and its subsidiaries' assets.

5. Capital stock

a. Authorized and issued

	Number Authorized	Number Issued	Amount
Class "A" voting, fully participating shares, without par value....	500,000	321,870	\$ 98
Class "B" voting, fully participating shares, without par value....	500,000	8,130	2
Common shares, without par value.....	100	—	—
		<u>330,000</u>	<u>\$ 100</u>

Each of the Class "A" shares and Class "B" shares are convertible into the other on a share for share basis.

b. Conversions

1,400 Class "B" shares were converted during the year into Class "A" shares.

c. Stock option plan

The Company granted stock options in 1979 to certain senior officers to purchase 16,500 of either Class "A" or Class "B" treasury shares for \$2.25 per share. These options are exercisable at any time before June, 1982.

6. Commitments

a. Leases

Future aggregate minimum annual rental payments (exclusive of other occupancy costs) for office and factory space under two operating leases in effect at October 31, 1980 are as follows:

(Fiscal years ending in) 1981.....	\$ 85,200
1982.....	64,200
1983.....	60,000
1984.....	5,000
	<u>\$214,400</u>

One lease has a three year renewal option.

Subsequent to the year-end, the Company entered into a lease for additional premises for a seven year term expiring February 29, 1988 at an average annual rental of \$52,700 (exclusive of other occupancy costs).

b. **Licensing agreement**

The Company is committed under a licensing agreement to pay a minimum annual licensing fee of U.S. \$65,000 until October 31, 1981. The agreement contains an option to renew for a further period of two years on the same terms and conditions except as to the right of further renewal.

7. **Earnings per share**

Earnings per share have been calculated on the number of shares outstanding during the year.

Fully diluted earnings per share are \$2.49 (1979 – \$1.86) and are based on the assumption that the stock options referred to in note 5(c) had been exercised at the beginning of 1979.

8. **Subsequent event**

Subsequent to the year-end, the Company, through a wholly-owned subsidiary, acquired the business of a United States company for approximately U.S. \$100,000.

9. **Statutory information**

a. **Remuneration of directors and senior officers**

The aggregate direct remuneration paid by the Company and its subsidiaries to the directors and senior officers, as defined by the Business Corporations Act (Ontario), amounted to \$989,000 (1979 – \$827,489).

b. **Loans made by the Company to directors and senior officers during 1980 amounted to \$25,400. These loans were repaid by October 31, 1980.**